The Commonwealth of Massachusetts
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STEVEN L. ANTONAKES
COMMISSIONER OF BANKS

November 3, 2009

The Honorable Steven T. James
Clerk of the House of Representatives
State House, Room 145
Boston, Massachusetts 02133

Dear Mr. James:

Enclosed for filing with the General Court, please find the Division of Banks' (the "Division") 2007 Annual Report pursuant to General Laws chapter 167, section 13. The law was amended by Chapter 456 of the Acts of 2002. The amendments to this statute combine four reports that previously had been filed separately into one report to allow for a more comprehensive description and analysis of trends affecting the Commonwealth's banks and credit unions. Also included are summary comments on legislation passed during the year which affected the Division or entities within its jurisdiction, as well as the Division's recommendations for the current session of the Legislature. Other significant events are also noted.

I am pleased to forward this Annual Report in accordance with the amendments made to section 13 of chapter 167 of the General Laws. If there are any questions on this Report, please contact me at (617)956-1510 or the Division's Legal Unit at (617)956-1520.

Very truly yours,

Steven L. Antonakes
Commissioner of Banks

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Office of the Commissioner of Banks
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To Whom It May Concern:

The financial services industry in Massachusetts continues to change rapidly and grow increasingly more complex. Consolidation, new technologies, and innovative product offerings will continue to impact the Division of Banks' ("Division") regulated industries and the consumers who utilize their services. The Division will continue to utilize the examination process and other supervisory measures to identify trends and assess the financial condition and compliance programs of its regulated entities.

In 2007, foreclosures continued to impact the local housing markets and disruptions in the financial markets made liquidity sources more difficult to access. In an effort to combat rising foreclosure rates and incidences of fraud, the Division undertook several initiatives including implementing the recommendations from the Mortgage Summit Working Groups, increased consumer guidance, changes in regulation, and the issuance of numerous enforcement actions.

The following pages include an agency profile, an overview of the industries the Division supervises, a summary of transactions and legislative and regulatory changes, a summary of salient market and financial data for Trust Companies, Savings Banks, Co-operative Banks, and Credit Unions, as well as consolidated financial data and institution specific managerial staff and branch locations.

As always, I would welcome your suggestions on additional information or analyses that would be helpful to you, and any other improvements you would recommend.

Very truly yours,

Steven L. Antonakes
Commissioner of Banks

I. INTRODUCTION

The Division of Banks' (the "Division") mission is to advance the public interest with the highest level of integrity and innovation by ensuring a sound, competitive, and accessible banking and financial services environment. Its 158 managers, examiners, and support staff are responsible for conducting financial safety and soundness, consumer compliance, community reinvestment act compliance, information technology, and trust examinations of these institutions. Accordingly, the Division plays a key role in maintaining depositor confidence in the State's banking system, as well as fostering a positive impact on the Commonwealth's economy.

The Division traces its origin to 1784 with the chartering of The Bank of Massachusetts, the forerunner of the former First National Bank of Boston. Records dating back to 1839 reveal the existence of 118 Massachusetts banks with total combined assets of $53 million. Today, the Division supervises 264 state-chartered banks and credit unions with total combined assets in excess of $235 billion.

The Division also is charged with licensing and examining over 5,000 non-bank financial entities, including mortgage brokers and lenders, finance companies, check cashers, money transmitters, and debt collectors. These organizations are also regularly examined for financial safety and soundness and compliance with various consumer protection laws and regulations.

2007 Accomplishments

- Implemented the recommendations of the Mortgage Summit Working Groups.
- Distributed a brochure on the risks associated with interest only loan products.
- Issued an Industry Letter regarding reduced documentation mortgage loans.
- Issued 48 Cease and Desist activity orders against out-of-state payday lenders
- Processed 1,163 requests for foreclosure delays and secured stays or modifications in over 68% of the cases.
- Refined the anti-money laundering program to enhance the Division's supervision of depository institutions and money service businesses. The improved program includes enhanced techniques to detect unlicensed and illegal activity.
- Completed 210 bank and credit union examinations and 444 examinations of non-bank licensees.
- Issued 4,647 license renewals and processed 1,258 new license applications.
- Completed 728 bank, credit union, licensee, and various other approval requests and issued 47 legal opinions.
- Resolved 773 consumer complaints and secured reimbursements on behalf of consumers totaling over $377,000.

2008 Objectives

- Implement the provisions of Chapter 206 of the acts of 2007 entitled An Act Protecting and Preserving Home Ownership.

- Continue to request a delay in the foreclosure proceedings for Massachusetts consumers who have filed a complaint with the Division.
- Maintain a sound, competitive, and accessible banking and financial services environment by enhancing the statutory and regulatory structure, as well as the examination and supervisory processes for regulated entities.
- Improve the existing regulatory and business climate by streamlining processes, refining risk-focused supervisory policies, and by expanding the use of technology.
- Safeguard consumers through expanded financial literacy and consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections.

II. MORTGAGE SUPERVISION

During 2007, mortgage supervision remained the Division's primary focus. Over the past several years, the mortgage market has changed dramatically and perhaps, never been more competitive. Low barriers to entry, improvements in technology and delivery systems, automated underwriting, and a prolonged refinance boom has resulted in an incredible increase in the number of licensed mortgage lenders and brokers throughout the country and dramatic shifts in market share. In Massachusetts alone, the number of licensed mortgage lenders and brokers tripled in just 5 years.

In addition to increased competition, securitization, the development of the subprime market, and an explosion in product types has also resulted in greater availability of mortgage credit than ever before. These changes, however, have also had unintended consequences, including increased consumer confusion and greater opportunities for unscrupulous companies to engage in unfair and deceptive practices.

Along with the first significant slow down in the real estate market in many years and an uncertain interest rate environment, we have seen a significant increase in foreclosure rates. However, unlike previous periods in which foreclosures have risen, the current spike nationally and here in Massachusetts does not appear to be as closely linked to traditional causes such as job loss, health issues, or divorce. Instead, the most recent rise in foreclosures appears to be largely rate driven and the result of consumers overextending themselves during the recent period of significant home value escalation. Higher defaults are also the result of the seasoning of a growing number of subprime loans, including loans which include interest only provisions and may have also been written with reduced or limited documentation.

A. Non Traditional Mortgage Loans

The Division issued consumer guidance on interest only loans and payment option adjustable rate mortgages in February 2006. Nevertheless, the Division continues to be concerned with the increased marketing of these non traditional mortgage loans. Until fairly recently, these products had a very specific and limited utility. For example, the specific use of interest only loans and option ARMS, not as a wealth management tool, but as a means of allowing consumers the opportunity to purchase a home that they would not otherwise be able to afford remains troubling. Moreover, there are very few instances in which a reduced documentation loan and its corresponding higher pricing structure would be appropriate for first time homebuyers or those who marginally qualify for credit.

As has been chronicled in local media reports, our examinations have found instances in which income stated on reduced documentation loans bares little resemblance to the income provided on an initial full documentation loan application. Some of the most egregious cases featured altered W-2s and pay stubs and outright admissions that income was purposely inflated or included income from individuals not listed on the mortgage application. The unfortunate reality is that the growing securitization of mortgage loans and allowance for reduced documentation has not only resulted in additional mortgage credit being available, but has also had the effect, in some cases, of significantly loosening prudent underwriting standards.

In 2007, the Division issued nearly 20 cease and desist orders essentially shuttering companies found to be intentionally overstating income on reduced documentation loans or engaging in other types of deceptive practices.

Long awaited Federal Financial Institutions Examination Council (FFIEC) guidance on non-traditional mortgages was finalized late in 2006 and provides sound information to credit unions and banks relative to the credit risk and consumer protection issues that may arise when originating these loans. Specifically, the guidance cautions lenders not to simply qualify borrowers based upon their ability to repay loans while introductory or interest only payments are required. Instead, the guidance notes that lenders should evaluate a borrower's ability to repay the loan at full maturity at the fully indexed rate as part of their overall underwriting decision. The guidance also notes the need for enhanced communication with consumers to ensure borrowers comprehend the potential risks and benefits associated with interest only loans and option ARMS.

Whereas the FFIEC is comprised solely of federal bank and credit union regulators, the guidance does not apply to non-bank, state licensed mortgage lenders and brokers. However, in an effort to ensure a level playing field is maintained within the mortgage market and that the consumer protections within the guidance are enforced uniformly, the Division issued Regulatory Bulletin 5.1-103 Guidance on Non-Traditional Mortgage Product Risks that is intended to clarify how mortgage lenders and mortgage brokers can offer nontraditional mortgage products in a way that clearly discloses the risks that borrowers may assume.

B. CSBS/AARMR Nationwide Database Initiative

Throughout 2007, the Division continued to dedicate significant resources to the development and implementation of the Nationwide Mortgage Licensing System ("NMLS" or the "System"). The Division worked with the Conference of State Bank Supervisors ("CSBS"), the American Association of Residential Mortgage Regulators ("AARMR"), and other state banking and mortgage regulatory agencies across the country toward developing the online license/registration system for mortgage lenders, mortgage brokers, and mortgage loan originators. The goal of the System is to increase accountability throughout the industry, help fight predatory lending and mortgage fraud, reduce regulatory burden on the mortgage industry, and streamline licensing processes for state regulatory agencies. On October 24, 2007, Commissioner Antonakes testified before the House Financial Services Committee, at the House Financial Services Committee hearing, that the NMLS will improve the efficiency and effectiveness of the US mortgage market by unifying and streamlining states' licensing safeguards.

The Division continued to devote a great amount of resources to the development of NMLS throughout 2007, including making available representatives from the Division staff to serve on and head numerous committees, and devoting its Chief Director of Licensing to serve as a Subject Matter Expert to work directly with CSBS and the Financial Industry Regulatory Authority ("FINRA"), the developer of NMLS. During 2007, Commissioner Antonakes also continued to serve on the five-member Board of Managers of the State Regulatory Registry ("SRR"), the limited-liability company formed in 2006, to run the System.

A Media Release was issued by CSBS and AARMR on November 5, 2007 which announced that 40 state agencies had committed to participate in the NMLS. The released also announced that seven states planned to begin using the NMLS as soon as it goes live date on January 2, 2008, including Idaho, Iowa, Kentucky, Massachusetts, Nebraska, New York and Rhode Island. By the close of 2007, 42 state agencies had committed to participate in the System.

Throughout 2007, the Division continued to utilize the paper uniform licensing applications ("MU Forms"), which were implemented in 2005. In the forth quarter of 2007, the MU forms were updated by a working group of mortgage regulators from around the country to reflect more closely reflect the online MU Forms contained in the System.

On August 31, 2007, the Division initiated the NMLS Transition process for its mortgage lender and mortgage broker licensees. Correspondence mailed on that day notified licensees that they were required to transition their company and branch license(s) onto the NMLS between the implementation date of January 2, 2008 and April 15, 2008, and that successful transition would be required for renewal in spring 2008. The correspondence also instructed licensees how to pre-register before December 1, 2007, in order to receive account access to the NMLS early in January 2008. Additionally, the Division launched a NMLS section on its website on that date.

During the forth quarter of 2007, the SRR and NMLS websites were also debuted. The SRR website, www.stateregulatoryregistry.org, provides information about SRR's operations, governance and purpose. The NMLS website, www.stateregulatoryregistry.org/NMLS, provides information for NMLS user, including how to log into NMLS to apply for or maintain a license, what state agencies are participating, System background information, instructions on how to get started, states' transition plans for its licensees, System tutorials, and NMLS navigation guides. The Division's Transition Plan and jurisdiction-specific materials were made available on the NMLS website.

To prepare for the January 2, 2008 launch of the System, on-site NMLS training for regulators from each of the seven launch state agencies were conducted in December 2007, at the FINRA offices in Rockville, Maryland. The Division's Chief Director of Licensing served as an instructor. Additionally, conference calls were held with the launch states throughout the forth quarter of 2007, to prepare for the launch.

At the close of 2007, the Division anticipated transitioning onto the System approximately 1,550 mortgage brokers and 550 mortgage lenders, and was well-prepared to begin accepting new company and branch license applications on-line through the NMLS on January 2, 2008.

C. *Mortgage Summit*

Finally, in an effort to develop a comprehensive strategy to address increasing foreclosure rates, the Division hosted a mortgage summit in November of 2006. The aforementioned forecasts of rising interest rates and a slowing real estate market will only further challenge homeowners. Payments on both traditional and non traditional adjustable rate mortgages will reset upwards and the ability to refinance these mortgages and possibly consolidate other consumer debt may no longer be a viable means of lowering monthly debt payments.

Nearly 50 individuals representing 29 government, industry, and nonprofit organizations attended the Mortgage Summit with the stated goal of seeking to address the increasing number of mortgage foreclosures across Massachusetts and to develop a statewide foreclosure prevention strategy that will put into place lasting measures to help consumers confronted with the loss of their homes. Following the Summit, two Working Groups were established to focus on Rules and Enforcement and Consumer Education and Foreclosure Assistance. The goal of the Working Groups was to take the ideas and suggestions from the Summit and develop specific recommendations. Below is a summary of the recommendations included within the report issued in April by the Mortgage Summit Working Groups:

- Criminalize the act of mortgage fraud.
- Support the multi-state licensing system for mortgage lenders and brokers being developed by the Conference of State Bank Supervisors.
- Raise the standards for applicants to become licensed as a mortgage lender or mortgage broker.
- Prohibit abusive foreclosure rescue schemes.
- Increase enforcement resources at the Division of Banks to supervise existing mortgage lenders and brokers and, if applicable, mortgage loan originators.
- Implement changes to the foreclosure process to better protect consumers, including a required Notice of Intention to Foreclose, during which no additional fees could accrue, and a right to cure provision to provide a consumer the opportunity to pay all payments in default.
- Stop unfair and deceptive marketing and advertising practices.

- Recommend guidance to clarify that borrowers should be qualified based on their ability to repay a loan at a fully-indexed rate, particularly non-fully amortizing mortgages or so-called Hybrid adjustable rate mortgages.
- Increase funding for pre- and post-purchase homebuyer counseling.
- Create a dedicated website devoted to financial education resources in Massachusetts.
- Increase support and resources for foreclosure prevention counseling and intervention to help consumers facing the loss of their homes.
- Encourage lender forbearance as an alternative to foreclosure.
- Develop a foreclosure intervention mortgage program for those persons at risk of foreclosure who could still qualify for financing with flexible terms and credit enhancements.

Many of the above recommendations were incorporated into Chapter 206 of the Acts of 2007, An Act Protecting and Preserving Home Ownership, which is described in detail below.

D. Foreclosure Relief

In an ongoing response to rising foreclosure rates, Governor Patrick instructed the Division to seek delays from mortgage lenders, on a case-by-case basis, for any Massachusetts homeowner who has filed a complaint with the Division as part of the Division's consumer assistance outreach efforts. Since the inception of this program in April, more than 400 people have reached out to the Division. Just under half of those individuals were already in foreclosure and needed immediate relief. The Division was able to secure 30- to 60-day stays in the foreclosure process in most of those cases. Due to these stays, many individuals and families were able to refinance or are in the process of refinancing their loans, were able to modify their loan terms, have received credit counseling, or were able to sell their homes. In addition, homeowners who contacted the Division and were in financial distress but not yet in foreclosure were partnered with counseling agencies that offer comprehensive services that can help them change direction and hopefully prevent foreclosure from occurring.

III. FINANCIAL INSTITUTION SUPERVISION

As of December 2007, the state-chartered banking industry in Massachusetts remained in fundamentally sound financial condition. Capital levels, which represent an institution's ability to absorb losses and fund growth, remain solid. At the same time, earnings performance has been sufficient to continue to augment capital levels. In 2007, interest rates remained stable for the first half of the year, and then declined dramatically during the third and fourth quarters. The reasons for the decline were increases in foreclosures as a result of the subprime credit crisis and disruptions within the financial markets. As a result, the interest rate environment continued to challenge management teams to improve earnings through alternative means.

Despite the disruptions in the financial markets caused by the subprime mortgage market, asset quality remains sound, with minimal delinquency levels reported in almost all loan categories. However, slight increases in some delinquency categories were noted as the housing market reacts to changes in the market place. Satisfactory underwriting and loan administration practices utilized over recent years have contributed to the overall satisfactory asset quality. In 2007, as in 2006, realized gains in the sale of investment securities assisted in the stabilization of earnings performance and capital levels.

Liquidity levels constricted somewhat due to the tightening of credit standards in response to the weakening in the mortgage markets. Nevertheless, liquidity levels are expected to remain at acceptable levels given the institutions' access to secondary sources. At the same time, exposure to interest rate risk has been mitigated through the implementation of prudent investment strategies. The ability of bank executives to manage their balance sheets will remain a focus of the Division's supervision program, as interest rate fluctuations have impacted interest margins.

Finally, the industry's Boards of Directors/Trustees and senior operating management are considered capable and seasoned. They have developed and implemented operating policies, procedures, strategies, and risk management practices that provide a framework for sound operations. Additionally, amidst the challenging environment, continued reliance on non-interest income was noted during 2007. At the same time, expansion through branching and increased emphasis on development and construction lending will challenge bank management teams to ensure that they continue to employ sound underwriting and credit administration practices. Moreover, as the economy continues to work through the disruptions in financial markets, management teams need to continue to diligently originate sound credits and identify and address loan weaknesses in a timely manner.

Compliance with the Bank Secrecy Act (BSA) and Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) continued to be a priority for the Division's examination staff. In the wake of the tragic events of September 11, 2001, Congress enacted the USA PATRIOT Act in part to stem the flow of funds to terrorists. The Division continues to enhance its anti-money laundering examination practices and programs to identify illicit and suspicious activities. To ensure that these activities are identified and addressed, the Division has provided advanced training to all examiners and the majority of managers. Through collaborative partnerships with industry groups and other state and federal regulators, the Division's examination staff has the necessary tools to properly monitor compliance with these regulations. To further enhance the Division's ability to monitor compliance with these regulations, information-sharing agreements were entered into with the Financial Crimes Enforcement Network and the Internal Revenue Service. These agreements provide for an exchange of relevant information on the variety of entities supervised by the Division.

IV. SUMMARY OF MAJOR CORPORATE TRANSACTIONS

The number of state-chartered institutions decreased by 16 during 2007 from 264 state-chartered financial institutions in 2006 to 248 state-chartered financial institutions in 2007 as a result of on-going market consolidation within the industry. The industry consolidation occurred within the dual banking system. Meanwhile, a certificate of public convenience and advantage to establish a state-chartered trust company and a certificate of public convenience and advantage to establish a state-chartered savings bank were also issued as organizing groups sought to enter the banking industry. The decrease of financial institutions during the year resulted from the following: there were eleven transactions involving mergers between state-chartered financial institutions; there were two transactions involving a state-chartered financial institution merging with and into a federally-chartered institution; there was one transaction in which a state-chartered financial institution merged with and into a financial institution chartered by another state; and there were two transactions in which a state-chartered financial institution converted to a federal charter. Although not affecting the total number of institutions, there were two transactions during the year in which a federally-chartered institution merged with and into a state-chartered institution. This narrative and the total of state-chartered institutions and branches reflect transactions that were consummated during 2007, and do not reflect those transactions that were approved but not consummated.

- ***State-Chartered Savings Banks:*** There was a net decrease of one state-chartered savings bank in 2007, from 70 state-chartered savings banks in 2006 to 69 state-chartered savings banks in 2007. There was one transaction involving the merger of a state-chartered savings bank with and into another state-chartered savings bank. There was one transaction involving the merger of an out-of-state national bank with and into a state-chartered savings bank. Three state-chartered savings banks reorganized into mutual holding companies, each with a mid-tier holding company.

  The transaction involving the merger of one state-chartered savings bank with and into another state-chartered savings bank was the merger of The Westborough Bank, Westborough with and into Hudson Savings Bank, Hudson, which changed its name to Avidia Bank. As part of the transaction, Westborough Bancorp, MHC and Westborough Financial Services, Inc., the mutual holding company and mid-tier holding company, respectively, for The Westborough Bank, were acquired by Assabet Valley Bancorp, Hudson, the mutual holding company for Hudson Savings Bank. The multi-step transaction was also due, in part, by the fact that Westborough Financial Services, Inc. had issued minority stock.

  The transaction involving the merger of an out-of-state national bank into a state-chartered savings bank was merger of The Factory Point National Bank, Manchester Center, Manchester, Vermont with and into Berkshire Bank, Pittsfield. As part of the transaction, Berkshire Hills Bancorp, Inc., the holding company for Berkshire Bank, acquired Factory Point Bancorp, Inc., the holding company for The Factory Point National Bank.

  The three state-chartered savings banks which reorganized into mutual holding companies with mid-tier holding companies, and with a subsidiary stock savings bank, are as follows: Bay State Savings Bank, Worcester into 1895 MHC, with a mid-tier holding company, 1895 Corp.; Marlborough Savings Bank, Marlborough into Marlborough Bancshares, MHC, with a mid-tier holding company, Marlborough Bancshares, Inc.; and Spencer Savings Bank, Spencer into Spencer MHC, with a mid-tier holding company, Spencer Mid-tier Holding Company. In another mutual holding company transaction, South Coastal Holdings MHC, Inc. merged with and into MountainOne Financial Partners, MHC, North Adams. As a result of this multi-step transaction, MountainOne Financial, Inc., continuing as the mid-tier wholly-owned subsidiary of MountainOne Financial Partners, MHC, directly controls three state-chartered savings banks, Hoosac Bank, North Adams; Williamstown Savings Bank, Williamstown; and South Coastal Bank.

The Board of Bank Incorporation considered an application to form a new savings bank in 2007. The organizers seeking to establish Veritas Bank, Lawrence were issued a certificate of public convenience and advantage to establish a state-chartered savings bank on April 27, 2007.

Dukes County Savings Bank, Edgartown changed its name to Martha's Vineyard Savings Bank as part of a transaction in which Martha's Vineyard Co-operative Bank, Vineyard Haven merged with and into Duke's County Savings Bank.

On January 17, 2007, the mutual holding company of Hampden Bank, Springfield, Hampden Bancorp, MHC, converted to a stock holding company under the name Hampden Bancorp, Inc.

- ***State-Chartered Co-operative Banks:*** There was a net decrease of seven state-chartered co-operative banks in 2007, from 69 state-chartered co-operative banks in 2006 to 62 state-chartered co-operative banks in 2007. The reduction occurred as a result of a number of various transactions. Three state-chartered co-operative banks merged with and into other state-chartered savings banks. Two state-chartered co-operative banks merged with and into state-chartered co-operative banks. During the year, one state-chartered co-operative bank merged with and into a state-chartered trust company. One state-chartered co-operative bank converted to a federal charter.

The transactions involving the mergers of three state-chartered co-operative banks into three state-chartered savings banks were the merger of BankMalden, a Co-operative Bank, Malden with and into DanversBank, Danvers; Ipswich Co-operative Bank, Ipswich with and into Institution for Savings in Newburyport and its Vicinity, Newburyport; and Martha's Vineyard Co-operative Bank, Vineyard Haven with and into Dukes County Savings Bank, Edgartown under the new name of Martha's Vineyard Savings Bank.

The transactions involving the mergers of two state-chartered co-operative banks into two other state-chartered co-operative banks were Dedham Co-operative Bank, Dedham with and into Needham Co-operative Bank, Needham under the name Needham Bank; and Bridgewater Co-operative Bank, Bridgewater with and into Mechanics' Co-operative Bank, Taunton.

The transaction involving the merger of a co-operative bank with and into a state-chartered trust company was The Sharon Co-operative Bank, Sharon with and into Eastern Bank, Boston. The transaction was authorized under law, although Eastern Bank is a trust company and therefore in stock form, Eastern Bank is the subsidiary bank of a mutual holding company.

The transaction involving a state-chartered co-operative bank converting to a federally-chartered mutual savings bank was the conversion of Brookline Co-operative Bank, Brookline. The Division notes that subsequent to the Bank's conversion to a federal charter, the Bank merged with and into Peoples Federal Savings Bank, Boston, under federal law.

In a transaction involving mutual holding companies of co-operative banks, Butler Bancorp, MHC, and its mid-tier subsidiary, Butler Bancorp, Inc., Lowell merged with Marlborough Bancorp, MHC, Marlborough. Butler Bancorp, MHC is the mutual holding company for Butler Bank, Lowell a state-chartered stock co-operative bank. Marlborough Bancorp was the mutual holding company for Marlborough Co-operative Bank, Marlborough, a state-chartered stock co-operative bank. As a result of the merger, Butler Bancorp, Inc. continued as the wholly-owned subsidiary of Butler Bancorp, MHC, and controls two state-chartered co-operative banks, Butler Bank and Marlborough Co-operative Bank.

The following state-chartered co-operative banks changed their names during 2007: North Abington Co-operative Bank, Abington to Abington Bank; and Needham Co-operative Bank, Needham changed its name to Needham Bank.

- ***State-Chartered Trust Companies:*** There was a net decrease of five state-chartered trust companies during 2007, from 26 state-chartered trust companies in 2006 to 21 state-chartered trust companies in 2007. The five transactions involving state-chartered trust companies involved the following: one merger with and into a state- chartered trust company; one merger with and into a state-chartered savings bank; one merger with and into an out-of-state bank; one merger with and into a savings bank chartered by another state; and one conversion to a federal charter. A proposed new trust company was also given authority to complete its formation during the year.

The transaction involving a state-chartered trust company merging with and into a state-chartered trust company was Investors Bank & Trust Company, Boston merging with and into State Street Bank and Trust Company, Boston. As part of this transaction, State Street Corporation, Boston, a registered bank holding company which has elected to be treated as a financial holding company, acquired Investors Financial Services Corp., Boston, the bank holding company for Investors.

The transaction involving a merger of a state-chartered trust company with and into a state-chartered savings bank was Luzo Community Bank, New

Bedford, which merged with and into Fall River Five Cents Savings Bank d/b/a BankFive ("BankFive"), Fall River. BankFive, MHC and BankFive Corporation, the mutual holding company and mid-tier subsidiary, respectively, for BankFive, acquired New Bedford Community Bancorp, New Bedford, the holding company for Luzo Community Bank.

The transaction involving the merger of a state-chartered trust company with and into an out-of-state bank was Westbank, West Springfield with and into New Alliance Bank, New Haven, Connecticut, a Connecticut state-chartered savings bank.

The transaction involving the merger of a state-chartered trust company with and into a federally-chartered bank was Capital Crossing Bank, Boston with and into Lehman Brothers Bank, FSB, Wilmington, Delaware which was formed solely to facilitate the transaction

The transaction involving the conversion of a state-chartered trust company to a federal charter was the conversion of Citizens Bank of Massachusetts, Boston to a national association. Citizens Bank of Massachusetts merged with and into its affiliate bank, Citizens Bank, National Association, Albany, New York. In connection with the merger, Citizens Bank, National Association changed its name to RBS Citizens, National Association.

The proposed new trust company, Nuvo Bank and Trust Company, Springfield, was issued a certificate of public convenience and advantage to establish a state-chartered trust company on April 27, 2007.

- ***State-Chartered Credit Unions:*** There was a net decrease of two state-chartered credit unions during the year, from 98 state-chartered credit unions in 2006 to 96 state-chartered credit unions in 2007. Two state-chartered credit unions merged with and into two state-chartered credit unions. A third transaction not affecting the total number of credit unions was a federal credit union that merged with and into a state-chartered credit union.

  The two transactions in which a state-chartered credit union merged with and into another state-chartered credit union were as follows: Lawrence Teachers' Credit Union, Lawrence merged with and into Metro Credit Union, Chelsea; and Uniti Credit Union, Brockton merged with and into Crescent Credit Union, Brockton. The transaction involving the merger of a federal credit union with and into a state-chartered credit union was Agawam Federal Credit Union, Agawam with and into Holyoke Credit Union, Holyoke.

  Although not affecting the total number of credit unions, during the year the Commonwealth's state-chartered corporate credit union merged with and into a federal corporate credit union. The Central Credit Union Fund, Inc., Auburn merged with and into Members United Corporate Federal Credit Union, Warrenville, Illinois. The Central Fund was established by Chapter 216 of the Acts of 1932 ("Chapter 216") as the first corporate credit union organized within the United States. The original purpose of the Central Fund was to provide cash or loans to the members in order for a credit union to remain liquid during the difficult times our country was experiencing in the 1930s. Since that time, the Central Fund has operated to serve credit unions by providing to its members lines of credit, wire transfers, as well as a variety of other liquidity services, membership share services, correspondent services, fund transfer services, investment and other related services. Under the 1932 Act, the Central Fund was to operate for only five years and then be liquidated under the direction of the Commissioner of Banks. The operation of the Central Fund was extended by law several times until made permanent in 1959. The authority for the merger of two corporate credit unions such as the Central Fund and Members United was established by Section 2 of Chapter 277 of the Acts of 2006. In addition to providing such authority and procedural requirements for such mergers, Chapter 277 granted other authorities to the Central Fund.

The following four state-chartered credit unions changed their names during 2007: Postal Community Credit Union, Boston changed its name to First Priority Credit Union; Northern Massachusetts Telephone Workers' Credit Union, Lowell changed its name to Northern Massachusetts Telephone Workers' Community Credit Union; Lynn Postal District Employees Credit Union, Lynn changed its name to Massachusetts Postal Employees Credit Union; and Springfield Mass. Municipal Employees Credit Union, Springfield changed its name to Greater Springfield Credit Union.

- *Summary of Institutions and Branches:* As noted above, at the end of the year, there were 248 state-chartered financial institutions, a net decrease of 16 state-chartered financial institutions, from a total of 264 state-chartered financial institutions in 2006. The state-chartered banking system consisted of 69 savings banks, 62 co-operative banks, 21 trust companies and 96 credit unions. The Division also has one building improvement association under its jurisdiction, which is included in this annual report.

  There was a net decrease of 236 branches of state-chartered financial institutions, from 1,205 branches in 2006 to 969 branches in 2007. The departure of Citizens Bank of Massachusetts from the state-chartered banking system resulted in the decrease of 262 state-chartered trust company branches. There was a net increase of 36 state-chartered savings bank branches, from 426 branches to 462 branches. There was no net change in the number of state-chartered co-operative bank branches, which totaled 112 branches in both years. There was a net decrease of 279 state-chartered trust company branches, from 560 branches to 281 branches. There was a net increase of seven state-chartered credit union branches, from 107 branches to 114 branches.

- *Mutual Holding Companies:* As noted above, there were three new mutual holding companies formed by state-chartered savings banks in 2007, each with a mid-tier holding company. As a result of multi-step transactions described herein, three other mutual holding companies were merged with and into other mutual holding companies.

- *De Novo Banks:* Nuvo Bank and Trust Company, Springfield, was issued a Certificate of Public Convenience and Advantage to establish a state-chartered trust company on April 27, 2007. Veritas Bank, Lawrence was also issued a Certificate of Public Convenience and Advantage to establish a savings bank on April 27, 2007. Each entity needs to obtain a second certificate, the Certificate to Transact Business, before it can open as a bank.

V. LEGISLATIVE AND REGULATORY SUMMARY

Legislation

There were three major bills signed into law in 2007 with significant and long-term changes relative to mortgages, foreclosures, and the regulation of mortgage lenders, mortgage brokers and mortgage loan originators. The first of these bills, Chapter 206 of the Acts of 2007 ("Chapter 206"), was signed into law by Governor Patrick on November 29, 2007. Chapter 206 included provisions relative to the licensing of mortgage loan originators, mortgage foreclosures, right to cure after default, counseling for subprime adjustable rate mortgages, appropriations to the Division to license loan originators as well as certain specific mortgage/foreclosure programs, Community Reinvestment Act ("CRA") examinations for mortgage lenders, miscellaneous provisions and effective dates. The purpose of the second bill, Chapter 223 of the Acts of 2007, An Act Relative to the Mortgage Industry, was to facilitate the Division of Banks' participation in a multi-state licensing system for mortgage lenders and mortgage brokers, the NMLS. Chapter 223 was signed into law on December 28, 2007. A third related law, Chapter 224 of the Acts of 2007, An Act Relative to the Licensing of Mortgage Loan Originators, was also signed into law on December 28, 2007, and contained one substantive amendment and provided additional clarification of another provision set forth in Chapter 206.

Following are brief summaries of the three laws relative to mortgages, foreclosures and the regulation of mortgage lenders, mortgage brokers and mortgage loan originators that were signed into law in 2007:

- **Chapter 206 of the Acts of 2007, An Act Protecting and Preserving Home Ownership**

  Following is a brief overview of some of the major provisions of Chapter 206 which had 22 separate and distinct SECTIONS.

  Licensing of Loan Originators: Chapter 206 establishes a new chapter, Chapter 255F, in the General Laws, which creates a complete statutory framework for the licensing, examination and supervision of mortgage loan originators in the Commonwealth.

Impact of Foreclosure on Tenants, Itemized Accounting and Foreclosure Database: One provision of Chapter 206 amends the tenancy-at-will statute to state that a tenancy-at-will in a dwelling unit is not terminated by operation of law by a foreclosure sale. A second provision provides that a tenancy under a lease of a dwelling unit is converted to a tenancy-at-will by operation of law after a foreclosure sale and also establishes that the lease for a tenant whose rental payment is subsidized under state or federal law shall not be affected by a foreclosure sale. The Act requires that the holder of a mortgage of real estate, or the holder's representatives, provide to the mortgagor or the mortgagor's heirs, successors or assigns a written notice containing an itemized accounting of the disposition of the proceeds of a foreclosure sale. Chapter 206 requires the Division of Banks to maintain a foreclosure database relative to foreclosure activity by mortgage lenders, mortgage holders and mortgage servicers as well as mortgage brokers and loan originators who placed such mortgage loans in the Commonwealth.

Community Reinvestment Act for Mortgage Lenders: The Act establishes a Community Reinvestment Act ("CRA") requirement for licensed mortgage lenders who make 50 or more home mortgage loans in the previous calendar year.

Counseling Requirements for Certain Adjustable or Variable Rate Subprime Mortgages: The Act prohibits a mortgage lender from making a subprime variable or adjustable rate mortgage loan to a first-time home loan borrower on one-to-four family, owner-occupied property in the Commonwealth unless the mortgagor affirmatively opts in writing for the variable or adjustable rate mortgage loan and receives certification from a counselor with a third-party nonprofit organization.

Pilot Program for First-Time Home Buyers and Foreclosure Prevention: The Division with other named entities are required to develop a pilot program to, among other things, identify best practices for financial institutions to provide first-time homebuyer loans, to provide for foreclosure prevention for at-risk homeowners, and to assist approved counseling programs with in-person counseling. The Act provided $2 million in grants for these programs.

Revision of Terms: The new law clarifies that an adjustable rate mortgage loan can be revised to a fixed rate mortgage loan and increases the charge that may be collected for any revision from ½% to 1% of the mortgage amount.

Increased Penalties for Violations by Mortgage Lenders and Mortgage Brokers: One provision of Chapter 206 increases the penalties for violations of General Laws chapter 255E, the mortgage broker and lender statute including the authority to ban an individual for life from the mortgage industry.

- **Chapter 223 of the Acts of 2007, An Act Relative to the Mortgage Industry**

The purpose of Chapter 223 of the Acts of 2007 ("Chapter 223" or the "Act") is to facilitate the Division of Banks' participation in a multi-state licensing system for mortgage lenders and mortgage brokers which was established by the Conference of State Bank Supervisors, an association of all 50 state banking departments. The main goal of this system, known as the Nationwide Mortgage Licensing System ("NMLS") is to create a national system and database for the review of mortgage lenders and mortgage brokers. NMLS went into effect on January 2, 2008. Chapter 223 sets forth the adoption of a uniform national license and electronic filing process, which will enable licensees to submit one application form for review by all states, rather than 50 separate forms. The Act also includes provisions for confidentiality of information and safeguards for privacy and data security. In addition, the Act amends section 5 of chapter 255E of the General Laws to delete the current June first expiration date for each license and replace it with language that each license expires annually on a date to be determined by the Commissioner, thereby allowing the Division to set the date in conjunction with NMLS. A second amendment to said section 5 requires the licensee to pay a fee for an additional office location at a reasonable cost as determined by the Commissioner. Chapter 223 also requires the Division to report on implementation of the Act to the Legislature no later than December 1, 2008. It should be noted that the NMLS will also be used for the licensing of mortgage loan originators now that such individuals must be licensed in the Commonwealth.

- **Chapter 224, An Act Relative to the Licensing of Mortgage Loan Originators**

  As noted above, Chapter 206 was signed into law on November 29, 2007. In signing the bill into law, the Governor returned SECTION 2 of the legislation governing access to criminal offender record information ("CORI") reports for applicants for licensing as mortgage loan originators due to the inclusion of juvenile records as part of the criminal history records check. In his message returning SECTION 2, the Governor recommended an amendment to SECTION 2 which would strike the words "and juvenile data" from the Act and reinsert SECTION 2 into the law. Chapter 224 of the Acts of 2007 ("Chapter 224") deleted the reference to juvenile data from Chapter 206. Chapter 224 also further clarified another provision of Chapter 206 regarding the effective date of the provision relative to the 90-day Notice of Right To Cure a default on a residential mortgage. Chapter 224 clarified that the 90-day Notice of Right To Cure a default on a residential mortgage loan does not apply to mortgages accelerated or whose statutory conditions have been voided under the terms of the mortgage prior to May 1, 2008, which is the date that the 90-day Right To Cure established in Chapter 206 went into effect.

Legislative Testimony

During the prior session, the Legislature reorganized its Committee structure, forming a Joint Committee on Financial Services and a Joint Committee on Consumer Protection and Professional Licensure. While petitions within the jurisdiction of the Division of Banks were assigned to various Committees, the majority of bills within the Division's jurisdiction were referred to the Joint Committee on Financial Services. This

Committee has jurisdiction over the subject areas which in the past were the province of the former Joint Committee on Banks and Banking and the former Joint Committee on Insurance. In addition, several bills were referred to the Joint Committee on Consumer Protection and Professional Licensure, which has jurisdiction over consumer credit and consumer protection issues, ranging from credit cards to credit counseling services.

During the first year of the 2007-2008 Legislative Session, formally known as the 185th General Court, the Division submitted testimony on several petitions in the following subject areas: Division of Banks Mortgage Summit recommendations; licensure of mortgage loan originators; community investment obligations for certain mortgage lenders; electronic licensing of mortgage lenders and mortgage brokers and information sharing among regulatory agencies; out-of-state collection agencies; pawnbrokers; limited purpose trust companies; several petitions relative to credit unions, including the sale of insurance, conversion to other charters, and mortgages; the Massachusetts Credit Union Share Insurance Corporation; confidentiality of documents at the Division of Banks; uniform enforcement and other changes applicable to certain licensees of the Division; actions by and transactions before the Board of Bank Incorporation and the Commissioner of Banks; and protecting consumers from unsolicited checks.

Regulations

During the year, the Division amended 209 CMR 42.00: *The Licensing of Mortgage Lenders and Mortgage Brokers*. The purpose of the amendments was to increase the minimum net worth requirement for licensed mortgage lenders and to formalize a minimum net worth requirement to implement the financial responsibility requirement for licensed mortgage brokers. The amendments excluded from the calculation of an applicant's net worth the value on an owner-occupied principal residence and would require an applicant for a mortgage broker's license to submit audited or reviewed financial statements. A surety bond requirement was also established for mortgage lenders and mortgage brokers. A new section, 209 CMR 42.17, was added to establish the effective dates of the amendments for applicants for licensure as mortgage lenders and mortgage brokers, and the effective dates of the amendments for existing mortgage lenders and mortgage brokers. The provisions of 209 CMR 42.17 make the amendments to 209 CMR 42.00 apply to any entity or individual who filed an application on or after the date of the amended regulations. Any entity or individual licensed as a mortgage lender or mortgage broker as of the promulgation date were required to demonstrate compliance with the amendments by December 31, 2008. The amendments to 209 CMR 42.00 became effective on September 7, 2007.

TRUST COMPANIES

State-chartered trust companies remained financially strong during 2007. The industry's aggregate assets declined 6% in 2007 to $156.0 billion, due in part to the net decrease of five state-chartered trust companies during 2007. Net loans and leases decreased 37% to $29.8 billion, while the aggregate securities portfolios declined 8%. Securities purchased under agreements to resell, trading assets, and investments in unconsolidated subsidiaries and associated companies all increased in 2007. However, branch expansion within the sector decreased, as premises and fixed assets declined from $1.0 billion to $860 million. At the same time, deposit growth was minimal and reflects the leveling off of the industry's deposit base during this period. Additionally, federal funds purchased and other borrowings declined 80% and 26%, respectively, as overall industry growth slowed. Total equity capital grew 1% and stands at approximately $14.4 billion.

In 2007, trust companies' earnings performance declined from $1.9 billion in 2006 to $1.5 billion. The decline was centered primarily in non-interest income, which fell 21%. In addition, although total non-interest income grew by 1%, one area that experienced a decline was net gains on the sale of assets, which decreased from $87.7 million to $18.5 million. Net servicing fees declined 75%, trading revenue increased 14%, and income from fiduciary activities grew 5%. Core earnings experienced a decline due to the fact, although interest expense declined by 21%, interest income also fell by 21%. Provision expense was also decreased by 76% to $18.7 million to accompany the decrease in loans, while non-interest expense increased 4%. Finally, realized gains on securities fell from $10.6 million in 2006 to a loss of $1.4 million in 2007, but did not significantly impact the strong industry earnings performance for the year.

Overall, trust companies continued to perform in a solid manner amidst the challenging environment.

Trust Companies

Statement of Condition - December 31, 2007

(in 000's)

Assets	12/31/2006	12/31/2007
Non Interest Bearing Balances	$ 3,522,033	$5,111,985
Interest Bearing Balances	5,379,276	5,530,362
Securities Held to Maturity	10,605,488	4,652,950
Securities Available for Sale	75,407,630	74,890,695
Federal Funds Sold	905,052	5,064,631
Securities Purchased Under Agreement to Resell	7,309,136	12,335,224
Loans and Leases Held for Sale	62,800	43,988
Loans and Leases, Net of Unearned Income	48,867,285	29,808,240
Allowance for Loan and Lease Losses	392,549	197,076
Net Loans and Leases	48,474,736	29,611,164
Trading Assets	3,814,819	5,052,924
Bank Premises and Equipment	1,046,998	860,783
Other Real Estate Owned	50,297	3,485
Investment in Unconsolidated Subsidiaries	100,856	123,473
Customers Acceptances Outstanding	0	0
Goodwill	3,424,698	4,671,551
Intangible Assets	513,519	1,981,118
Other Assets	5,574,669	6,071,086
Total Assets	**166,192,007**	**156,005,419**
Liabilities		
Non Interest Bearing Deposits	14,870,277	17,127,689
Interest Bearing Deposits	98,234,307	96,003,846
Total Deposits	113,104,584	113,131,535
Federal Funds Purchased	3,406,803	694,613
Securities Sold under Agreement to Repurchase	17,519,340	9,420,587
Trade Liabilities	3,044,596	4,380,746
Other Borrowed Money	7,894,408	5,842,819
Subordinated Notes and Debentures	1,258,116	998,297
Other Liabilities	5,711,144	7,145,238
Total Liabilities	**151,938,991**	**141,613,835**
Equity		
Minority Interest in Consolidated Subsidiaries	236	9,658
Preferred Stock	28,145	28,145
Common Stock	96,323	71,461
Surplus	4,604,716	6,493,671
Retained Earnings	9,940,109	8,420,244
Accumulated Other Comprehensive Income	(411,104)	-626,093
Other Equity Capital	(5,409)	-5,502
Total Equity Capital	**14,253,016**	**14,391,584**
Total Liabilities, Minority Interest and Equity Capital	166,192,007	156,005,419

Trust Companies

Statement of Income - December 31, 2007

(in 000's)

	12 /31/ 2006	12/31/2007
Total Interest Income	7,511,277	$5,960,084
Total Interest Expense	4,378,731	3,481,051
Net Interest Income	3,132,546	2,479,033
Provision for Loan and Lease Losses	78,917	18,667
Income From Fiduciary Activities	4,973,451	5,204,321
Service Charges	206,632	107,437
Trading Revenue	658,044	753,061
Investment Banking, Advisory, Brokerage fees and Commissions	47,578	130,912
Venture Capital Revenue	(588)	61
Net Servicing Fees	3,245	826
Net Securitization Income	-	-
Insurance Commission and Fees	45,043	42,808
Net Gains (Losses) on Sale of Assets	87,712	18,452
All Other Noninterest Income	957,090	817,370
Total Noninterest Income	**6,978,207**	**7,075,248**
Realized Gains (Losses) on Held-To-Maturity Securities	1,892	128
Realized Gains (Losses) on Available-For-Sale Securities	8,661	(1,498)
Salaries and Employee Benefits	3,533,200	3,375,487
Expenses of Premises and Fixed Assets	1,127,433	987,354
Goodwill Impairment Losses	3,482	-
Amortized Expenses and Impairment Loss For Other Intangibles	70,551	93,158
Other Noninterest Expense	2,297,015	2,836,398
Total Noninterest Expense	**7,031,681**	**7,292,397**
Income (Loss) Before Income Taxes	3,010,708	2,241,847
Applicable Income Taxes	1,105,590	757,619
Income (Loss) Before Extraordinary Items	1,905,118	1,484,228
Extraordinary Items	10,140	5,491
Net Income (Loss)	**1,915,258**	**1,489,719**

SAVINGS BANKS

The aggregate assets for the Commonwealth's savings banks grew 5% in 2007 and stand at $47.7 billion. During the year, savings banks continued to augment their loan portfolios. Specifically, net loans and leases increased 8% to $31.2 billion, while the securities portfolio declined 5% to $12.1 billion. Premises and fixed assets also rose 8% as the industry continued its branch expansion. To help fuel the overall growth, deposits rose 4% in 2007, while borrowings increased 11%. Interest-bearing balances fell 1% for the industry to $144 million. However, total equity capital grew 8% and stands at $5.0 billion.

Net income for the industry fell 6% during 2007, primarily as market pressures to remain competitive impacted performance levels. Net interest income declined approximately 1% as interest expense growth of 20% outpaced interest income, which grew only 10%. Provision expense decreased 8% to $28.4 million, while non-interest expense increased 6% as costs associated with salaries and premises rose 6% and 8%, respectively. However, helping mitigate some of these costs was non-interest income, which rose 14%, as well as realized gains on securities, which grew 63%.

Overall, the savings bank industry remains in solid financial condition amidst a challenging environment.

Savings Banks

Statement of Condition - December 31, 2007

(in 000's)

Assets	12/31/2006	12/31/2007
Non Interest Bearing Balances	$ 781,144	$664,134
Interest Bearing Balances	146,097	144,400
Securities Held to Maturity	1,625,609	1,404,225
Securities Available for Sale	10,822,151	10,731,478
Federal Funds Sold	753,889	913,568
Securities Purchased Under Agreement to Resell	-	43,029
Loans and Leases Held for Sale	110,408	73,781
Loans and Leases, Net of Unearned Income	28,934,423	31,229,319
Allowance for Loan and Lease Losses	256,366	263,495
Net Loans and Leases	28,678,057	30,965,824
Trading Assets	2,596	206,708
Bank Premises and Equipment	630,988	681,630
Other Real Estate Owned	3,699	24,367
Investment in Unconsolidated Subsidiaries	530	119
Goodwill	141,445	213,366
Intangible Assets	50,775	57,959
Other Assets	1,526,105	1,618,429
Total Assets	**45,273,403**	**47,743,017**
Liabilities		
Non Interest Bearing Deposits	2,640,559	2,954,309
Interest Bearing Deposits	31,657,924	32,801,564
Total Deposits	34,298,483	35,755,873
Federal Funds Purchased	17,254	28,661
Securities Sold under Agreement to Repurchase	403,243	443,802
Trade Liabilities	-	-
Other Borrowed Money	5,457,491	6,061,145
Subordinated Notes and Debentures	-	-
Other Liabilities	441,706	437,213
Total Liabilities	**40,618,177**	**42,726,694**
Equity		
Minority Interest in Consolidated Subsidiaries	-	-
Preferred Stock	10	10
Common Stock	74,899	82,103
Surplus	2,802,077	3,018,176
Retained Earnings	1,723,445	1,811,333
Accumulated Other Comprehensive Income	79,402	126,587
Other Equity Capital	(24,607)	(21,886)
Total Equity Capital	**4,655,226**	**5,016,323**
Total Liabilities, Minority Interest and Equity Capital	45,273,403	47,743,017

Savings Banks

Statement of Income - December 31, 2007

(in 000's)

	12/31/2006	12/31/2007
Total Interest Income	$ 2,351,977	2,584,394
Total Interest Expense	1,168,491	1,401,625
Net Interest Income	1,183,486	1,182,769
Provision for Loan and Lease Losses	30,757	28,416
Income From Fiduciary Activities	18,685	21,491
Service Charges	73,843	82,643
Trading Revenue	6	338
Investment Banking, Advisory, Brokerage fees and Commissions	15,248	15,853
Venture Capital Revenue	(340)	(384)
Net Servicing Fees	5,885	5,912
Net Securitization Income	72	72
Insurance Commission and Fees	15,717	18,898
Net Gains (Losses) on Sale of Assets	7,020	10,153
All Other Noninterest Income	69,754	80,772
Total Noninterest Income	**205,890**	**235,748**
Realized Gains (Losses) on Held-To-Maturity Securities	(138)	32
Realized Gains (Losses) on Available-For-Sale Securities	24,550	39,961
Salaries and Employee Benefits	624,714	661,950
Expenses of Premises and Fixed Assets	140,902	151,687
Goodwill Impairment Losses	-	750
Amortized Expenses and Impairment Loss For Other Intangibles	5,441	5,591
Other Noninterest Expense	302,563	321,455
Total Noninterest Expense	**1,073,620**	**1,141,433**
Income (Loss) Before Income Taxes	309,411	288,661
Applicable Income Taxes	89,987	81,308
Income (Loss) Before Extraordinary Items	219,424	207,353
Extraordinary Items	-	-
Net Income (Loss)	**219,424**	**207,353**

CO-OPERATIVE BANKS

The co-operative bank industry within the Commonwealth remains sound. Total assets stand at approximately $13.1 billion and declined 1% in 2007. Net loans and leases declined less than 1% to $9.7 billion, while the allowance for loan and lease losses increased 3% to $92 million. At the same time, other real estate owned increased 136% to $31.8 million as an indicator that the economy was softening. Meanwhile, securities portfolios declined 4% to $2.3 billion. In addition, interest-bearing balances and federal funds sold declined 13% and 10%, respectively. Cooperative banks continued to expand their branching network as premises and fixed assets rose 7%. To help fund overall growth, borrowings increased 13%, while deposits fell 3%. Further, equity capital was flat, with growth of 0.1%, and stands at $1.44 billion.

Meanwhile, earnings performance for the industry declined 30% since 2006 to $52.6 million as market pressures to remain competitive were strong throughout the year. In particular, net interest income declined 9% as a 17% growth in interest expense outpaced a 3% increase in interest income. Nevertheless, non-interest income growth was strong at 14%, with insurance-related activities as the primary income driver. Conversely, non-interest expense rose 2% with growth in expenses related to salaries and premises at 1% and 2%, respectively. Further, although realized gains on the sale of securities increased 60% in 2007, provision for loan and lease losses expenses rose 53%, which pressured the bottom line.

The overall condition of co-operative banks remained solid during the year.

Co-operative Banks
Statement of Condition - December 31, 2007
(in 000's)

Assets	12/31/2006	12/31/2007
Non Interest Bearing Balances	$ 236,051	$213,747
Interest Bearing Balances	96,651	84,193
Securities Held to Maturity	579,555	552,459
Securities Available for Sale	1,781,536	1,714,087
Federal Funds Sold	193,453	174,985
Securities Purchased Under Agreement to Resell	2,519	1,078
Loans and Leases Held for Sale	23,649	19,274
Loans and Leases, Net of Unearned Income	9,670,190	9,660,491
Allowance for Loan and Lease Losses	89,210	91,966
Net Loans and Leases	9,580,980	9,568,525
Trading Assets	-	-
Bank Premises and Equipment	245,415	262,211
Other Real Estate Owned	13,443	31,751
Investment in Unconsolidated Subsidiaries	253	55
Goodwill	2,845	2,845
Intangible Assets	9,201	3,642
Other Assets	417,145	454,829
Total Assets	**13,182,696**	**13,083,681**
Liabilities		
Non Interest Bearing Deposits	829,969	798,840
Interest Bearing Deposits	9,299,185	9,037,769
Total Deposits	10,129,154	9,836,609
Federal Funds Purchased	-	-
Securities Sold under Agreement to Repurchase	21,293	21,915
Trade Liabilities	-	-
Other Borrowed Money	1,523,720	1,716,001
Subordinated Notes and Debentures	-	-
Other Liabilities	68,211	67,561
Total Liabilities	**11,742,378**	**11,642,086**
Equity		
Minority Interest in Consolidated Subsidiaries	72	72
Preferred Stock	-	-
Common Stock	10,734	10,784
Surplus	931,096	929,133
Retained Earnings	506,280	510,926
Accumulated Other Comprehensive Income	(3,258)	(2,045)
Other Equity Capital	(4,606)	(7,275)
Total Equity Capital	**1,440,318**	**1,441,595**
Total Liabilities, Minority Interest and Equity Capital	13,182,696	13,083,681

Co-operative Banks

Statement of Income - December 31, 2007

(in 000's)

	12/31/2006	12/31/2007
Total Interest Income	$ 728,805	$749,559
Total Interest Expense	325,181	380,331
Net Interest Income	403,624	369,228
Provision for Loan and Lease Losses	9,232	14,128
Income From Fiduciary Activities	9	10
Service Charges	20,364	21,915
Trading Revenue	-	-
Investment Banking, Advisory, Brokerage fees and Commissions	1,371	1,229
Venture Capital Revenue	-	-
Net Servicing Fees	1,671	1,696
Net Securitization Income	-	-
Insurance Commission and Fees	1,049	2,065
Net Gains (Losses) on Sale of Assets	3,771	4,202
All Other Noninterest Income	15,138	18,510
Total Noninterest Income	**43,373**	**49,627**
Realized Gains (Losses) on Held-To-Maturity Securities	21	-
Realized Gains (Losses) on Available-For-Sale Securities	1,679	2,720
Salaries and Employee Benefits	185,734	188,238
Expenses of Premises and Fixed Assets	40,770	41,719
Goodwill Impairment Losses	-	-
Amortized Expenses and Impairment Loss For Other Intangibles	214	251
Other Noninterest Expense	98,866	100,506
Total Noninterest Expense	**325,584**	**330,714**
Income (Loss) Before Income Taxes	113,881	76,733
Applicable Income Taxes	38,777	24,085
Income (Loss) Before Extraordinary Items	75,104	52,648
Extraordinary Items	-	-
Net Income (Loss)	**75,104**	**52,648**

CREDIT UNIONS

The Commonwealth's credit unions continued to experience sound growth in 2007 with total assets increasing to $12.0 billion from $11.6 billion, or a 3% increase from 2006. The Massachusetts credit union movement has continued to evolve to meet the diverse needs of the Commonwealth's citizens. The success of the movement can be shown in the growth in shares, which have increased to $9.5 billion from $9.4 billion, or 2%, despite a highly competitive deposit market. Increased lending authority through amendments to the Massachusetts General Laws and Code of Massachusetts Regulations *Parity with Federal Credit Unions* allowed credit unions to experience healthy growth in their loan portfolios, as total loans increased to $8.2 billion from $8.0 billion, or 3%. Due to the softening real estate market, slowdown in the economy, and expanded fields of membership, the provision for loan and lease losses expense increased during 2007 to $28.2 million from $21.7 million, or a 30% increase. Despite this increase, delinquency and charge-off levels are comparable to 2006 levels, and the underwriting practices of the Commonwealth's credit unions remain strong. As state-chartered credit unions have continued to expand their membership base and services, enhanced infrastructure and branch networks to reach and serve the membership remain priorities. During 2007, land and building assets increased to $167.6 million from $158.8 million, or 6%, while other fixed assets increased to $54.0 million from $39.0 million, a 39% increase from 2006.

Net income for the Commonwealth's credit union movement declined to $43.6 million from $61.3 million, or 29%, from 2006 largely due to market pressures to remain competitive. Notably, interest expense grew to $327.0 million from $272.1 million, or 20%, outpacing growth of interest income to $664.0 million from $611.6 million, or 9%, since 2006. Additionally, non-interest expense has increased to $342.5 million from $325.1 million, or 5%, in 2006 largely due to the continued expansion of infrastructure. Nevertheless, capital levels in Massachusetts credit unions remain strong, as equity capital grew 4% to $1.5 billion since 2006.

Overall, the credit union movement continues to expand, diversify, and remain strong despite a challenging financial environment.

Credit Unions

Statement of Condition - December 31, 2007

(in 000's)

	12/31/2006	12/31/2007
Assets		
Cash and Investments	$ 3,303,273	$ 3,334,337
Loans and Leases, Net of Unearned Income	7,964,387	8,238,423
Allowance for Loan and Lease Losses	39,514	40,668
Net Loans and Leases	7,924,873	8,197,755
Land and Building	158,846	167,592
Other Fixed Assets	38,934	53,956
Other Real Estate Owned	2,924	5,424
Other Assets	199,330	202,604
Total Assets	**11,628,179**	**11,961,667**
Liabilities		
Total Shares and Deposits	9,371,989	9,541,423
Total Borrowings	702,167	805,072
Accrued Dividends Payable on Shares	3,313	3,016
Accounts Payable and Other Liabilities	63,227	69,082
Total Liabilities	**10,140,696**	**10,418,593**
Equity		
Regular Reserves	267,361	265,861
Appropriation for Non-Conforming Investments	400	388
Undivided Earnings	1,216,831	1,262,789
Net Unrealized Gain/(Loss) on AFS	718	17,395
Other Reserves	2,173	-3,359
Total Equity Capital	**1,487,483**	**1,543,074**
Total Liabilities + Equity Capital	**11,628,179**	**11,961,667**

Credit Unions

Statement of Income - December 31, 2007

(in 000's)

	12/31/2006	12/31/2007
Total Interest Income	$ 611,568	$ 663,956
Total Interest Expense	272,072	327,006
Net Interest Income	339,496	336,950
Provision for Loan and Lease Losses	**21,699**	**28,211**
Fee Income	55,597	60,962
Other Operating Income	13,571	15,294
Gain (Loss) on Investments	-1,622	1,290
Gain (Loss) on Disposition of Fixed Assets	-295	296
Other Non-Operating Income	1,341	-460
Total Non-Interest Income	**68,592**	**77,382**
Employee Compensation and Benefits	169,310	178,592
Travel and Conference Expense	4,669	4,479
Office Occupancy Expense	25,929	27,216
Office Operation Expense	52,238	55,807
Education and Promotional Expense	14,688	14,409
Loan Servicing Expense	11,691	12,247
Professional and Outside Services	33,670	34,933
Member Insurance	2,060	2,002
Operating Fees	1,653	1,653
Miscellaneous Operating Expenses	9,211	11,198
Total Non-Interest Expense	**325,119**	**342,536**
Net Income (Loss)	**61,270**	**43,585**